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SUBJECT: PARIS CLUB - SEPTEMBER 2006 TOUR D'HORIZON

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SUMMARY

1. (SBU) At the September 13 meeting of the Paris Club, Xavier Musca, the Chairman of the Paris Club, reported that Angolan Finance Minister de Moraes had told him the previous week that Angola is still considering a precautionary Stand-By Arrangement with the IMF, with the understanding that this would unlock debt relief from the Paris Club. The Minister said Angola would resume discussions with the IMF on the margins of the September 17-20 annual meetings of the

IMF and World Bank in Singapore. He also said that Angola is prepared to start servicing its Paris Club debt and make a good-faith payment toward its arrears of over 4 billion dollars. Some creditors were skeptical about Angola's intentions and pressed for more aggressive action to try to recover arrears. Haiti may reach Decision Point under the Highly Indebted Poor Countries (HIPC) Initiative in October and come to the Paris Club for interim debt relief in November. Malawi reached HIPC Completion Point in August and is tentatively scheduled to come to the Paris Club for negotiations in October. The USDEL said helping Lebanon is a high priority, and that, although Paris Club debt represented only a small part of its total debt, it is open to creative ideas of how the Paris Club might contribute to the reconstruction effort. Other countries on the agenda were Algeria, Argentina, Belize, Brazil, Cambodia, Iraq, Kenya, Nicaragua, Pakistan, Russia, Sao Tome, Serbia, Montenegro, and Seychelles. END SUMMARY.

ALGERIA

12. (SBU) The secretariat will distribute an updated table summarizing the results of Algeria's prepayment operation. The USDEL chose not to announce that, in response to a letter from President Bouteflika to President Bush, the USG is taking a second look at whether it can accept prepayment of approximately 600 million dollars in debt owed to USDA.

ANGOLA

13. (SBU) Angola appears to be moving closer to obtaining an IMF program and normalizing relations with the Paris Club, but some creditors are losing patience. Finance Minister de Moraes told Paris Club Chairman Musca last week that he had received a green light from President dos Santos to resume negotiations with the IMF on the margins of the annual meetings in Singapore. In addition, de Moraes said Angola was prepared to start servicing its Paris Club debt and make a symbolic good-faith payment toward arrears (in an amount unspecified). De Moraes promised to send a letter to the Paris Club confirming these intentions. The IMF reported that a mission had visited Luanda in July to explain the modalities of a possible precautionary SBA, but that progress had not been as rapid as originally envisioned.

14. (SBU) Several creditors, led by Spain, pointed out that the Paris Club has been down this road before, only to be disappointed. They argued that if Angola is no closer to concluding an IMF program come October, the club should revert to a previously agreed strategy of pressing Angola to clear arrears in as short a timeframe as possible. Other creditors (US, UK, Germany, Belgium) cautioned against setting artificial deadlines and urged creditors to use discretion. In the end, creditors agreed to await the outcome of the Singapore meetings before deciding on a course of action. Musca will meet with the Angolan authorities in Singapore and underscore creditors' growing impatience. The secretariat will initiate a data call to get a better picture of payments falling due and draft a working paper on how to divide up any arrears payments received from Angola.

ARGENTINA

15. (SBU) Economy Minister Miceli and Finance Secretary MacLaughlin told the UK's ambassador in Buenos Aires that Argentina plans to make a proposal to the Paris Club by the end of the year. Other creditors had no further news to report since the last meeting. Several creditors have scheduled bilateral meetings with Argentina on the margins of the IMF-World Bank meetings in Singapore and intend to raise the debt issue.

BELIZE

16. (U) The US reported, and the IMF confirmed, that, although Belize announced in August that it intends to rearrange its debt with the private sector, it does not intend to restructure its official bilateral debt. The UK said it was already forgiving Belize's debt service payments as they came due under the

Commonwealth Debt Initiative. The only other Paris Club creditors are the United States (12 million dollars in claims) and Japan (5 million dollars). Of Belize's 1 billion dollars in public debt, over half is owed to commercial creditors.

BRAZIL

¶17. (U) The secretariat took stock of Brazil's prepayment operation. Germany and Italy said arrears still had not been cleared. The secretariat will meet with the Brazilian authorities in Singapore

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and encourage them to settle these disputes. All other participating creditors have received their prepayment.

CAMBODIA

¶18. (U) Russia and Cambodia still have not resolved their bilateral debt dispute, which continues to hold up approval of Cambodia's new Poverty Reduction and Growth Facility (PRGF) with the IMF. (The US resolved its own bilateral dispute with Cambodia earlier this year and has signaled its support for the PRGF.) A Cambodian delegation visited Russia in August to try to resolve the dispute, but no agreement was reached. Russia proposed several options for treating post-cutoff debt (the main point of contention), but the Cambodian delegation said it would need to discuss these options back in Phnom Penh. The US said it was in the process of concluding its bilateral agreement implementing the 1995 Paris Club agreed minute and reaffirmed its willingness to provide financing assurances for Cambodia's new PRGF. Italy reported small arrears (1.3 million euros).

HAITI

¶19. (U) The IMF said Haiti's request for a PRGF will come before the executive board in late October, together with decision point. The US said supporting economic development in Haiti is a high priority for the international community and that, if Haiti achieves Decision Point in October, the US would look forward to meeting with it in the Paris Club as early as November to negotiate a Cologne Treatment. (This would provide cancellation of 90 percent or more of the debt service coming due during the PRGF period.) The secretariat acknowledged that proceeding directly to a Cologne

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treatment, as opposed to starting with a Naples treatment, (which provides less debt relief) was atypical, though not unprecedented. The IMF will ask for financing assurances for the PRGF from the Paris Club at the October meeting.

IRAQ

¶10. (U) Russia said the text of its bilateral agreement with Iraq has been completed, but the agreement itself has not yet been signed. A signing session was originally planned for late August but was subsequently postponed pending high-level formal approval. Russia remains the only Paris Club creditor that has yet to conclude a bilateral agreement with Iraq implementing the 2004 Paris Club agreed minute.

KENYA

¶11. (U) The IMF said there was considerable uncertainty as to whether the second review of Kenya's PRGF will be completed before the program expires in November, due to limited progress on governance reforms. If, in fact, the program expires without completion of the second review, the third phase of Kenya's current Paris Club agreement (which provides for the rescheduling of 2006 maturities) will not enter into force. The IMF noted that no financing gaps are anticipated in 2006 and 2007, even in the absence of a Paris Club rescheduling. The secretariat will draft a letter to the Kenyan authorities alerting them to the current state of events.

LEBANON

¶12. (SBU) The IMF said the ratio of government debt to GDP stood at 175 percent, but only a small fraction of the debt was owed to official creditors. Italy said the reconstruction of Lebanon could not be done on grants alone and suggested that new lending (both ODA and non-ODA) needed to be considered, notwithstanding the precarious debt dynamics. The USDEL said helping Lebanon is a high priority, but cautioned against adding to Lebanon's debt burden.

MALAWI

¶13. (U) The IMF reported that Malawi reached its completion point on August 3 and qualified for HIPC and Multilateral Debt Relief Initiative (MDRI) relief, which will likely exceed 3 billion dollars. Malawi is tentatively scheduled to come to the Paris Club for negotiations next month. (The US does not have any claims.)

NICARAGUA

¶14. (U) The secretariat met with officials from the Libyan embassy in Paris to explain the HIPC process and the Paris Club's principle of comparable treatment. (Nicaragua is seeking 91 percent cancellation, consistent with its January 2004 HIPC completion point treatment in the Paris Club, whereas Libya is offering to cancel 67 percent of its claims and is threatening litigation to recover the balance.) The Libyan officials said they would report back to their authorities in Tripoli. The secretariat will reinforce its message by sending a letter directly to the authorities. Separately, several creditors (Austria, Denmark, France, Japan, Netherlands, Norway, Sweden, US) reported that they had been asked by Nicaragua to help the World Bank's International Development Association (IDA) finance a buyback of Nicaragua's commercial debt on HIPC-comparable terms.

PAKISTAN

¶15. (U) Norway announced that it will do a 20 million dollar debt-for-development swap with Pakistan, in close cooperation with the Asian Development Bank. Under the terms of the swap, commercial debt will be converted into grants and channeled to the Pakistan Earthquake Fund to support reconstruction.

RUSSIA

¶16. (U) All creditors have received their prepayment from Russia.

SAO TOME

¶17. (U) The IMF said HIPC completion point could be reached by early 2007. Germany, France, Russia, and Spain reported technical arrears but agreed to allow the second phase of the current Paris Club agreement to enter into force. The secretariat will send a letter to the authorities urging them to clear all arrears and conclude outstanding bilateral agreements with Spain, France, and Russia. (The US does not have any claims.)

SERBIA AND MONTENEGRO

¶18. (U) The secretariat proposed sending a letter to the finance ministers of Serbia and Montenegro acknowledging the partition of Serbia's external debt and calling on each country to conclude new bilateral agreements with its Paris Club creditors. Creditors agreed with the thrust of this approach, but asked the secretariat to hold off on sending the letter until they have had a chance to review the partition agreement and verify the figures. Several creditors, including the US, reported discrepancies between their own debt figures and data provided by the Serbian central bank in August. Separately, the secretariat suggested that no response was necessary to Serbia's recent letter inviting Paris Club creditors to engage in debt swaps.

SEYCHELLES

¶19. (U) The secretariat will send a letter to the newly elected Seychellois authorities calling on them to normalize relations with the Paris Club. (The US is not a creditor.)

Methodology

¶20. (U) Creditors agreed to a new approach proposed by the secretariat to address discrepancies between IMF-WB data and data

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submitted by Paris Club creditors in the context of HIPC. In the past, these discrepancies have led to significant revisions in the HIPC common reduction factor. Under the new approach, the secretariat will ask creditors to reconcile their data with the

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debtor country two months prior to decision point and two months prior to completion point. On each occasion, the data will be passed to the IMF for inclusion in the DSA. The secretariat confirmed that the HIPC sunset clause will not affect the Paris Club's methodology for providing debt relief to HIPC countries. In response to a question from Russia, the IMF said Afghanistan could be declared HIPC eligible in early 2007, pending completion of a Debt Sustainability Analysis.

STAPLETON#